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Message Text

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62
ORIGIN XMB-04

INFO OCT-01 EA-06 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-07 NSAE-00 RSC-01 TRSE-00 OPIC-03 SP-02

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DRAFTED BY: XMB:KTTELESCA:ECS
APPROVED BY: EB/OCA/REP:LAKLIEFORTH
XMB:WWGLICK
EB/IFD/ODF:EMLINTON
EA/IMS:PCGILL
CC: XMB:MESSRS LENTZ, CARBONAR, WALKER, TRAN, O'CONNOR, BEEDE,
TELESCA, FILES
---------- 040333
R 262043Z DEC 74
FM SECSTATE WASHDC
TO AMEMBASSY KUALA LUMPUR

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E.O. 11652: N/A
TAGS: BR, EFIN
SUBJ: MALAYSIA AIRLINE SYSTEM REQUEST FOR EXIM LOAN FOR
TWO DC10 AIRCRAFT

REF: UNCLASSIFIED KUALA LUMPUR 5999

1. EXIM SENT THE FOLLOWING TO MAS ON 12/17/74 REGARDING
NEED FOR ADDITIONAL PAID-IN-CAPITAL AND AWAITS REPLY FROM MAS:

"THIS IS IN RESPONSE TO YOUR REQUEST FOR AN INDICATION
OF HOW MUCH ADDITIONAL SHARE CAPITAL EXIMBANK WOULD REQUIRE TO
BE PAID IN BEFORE ANY DISBURSEMENT OF AN EXIM CREDIT, IF AU-
THORIZED, TO FINANCE THE PURCHASE OF TWO DC10'S.

CAREFUL EXAMINATION OF YOUR FINANCIAL PROJECTIONS AND
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RELATED EXIMBANK STANDARDS AS TO ACCEPTABLE COMPANY CAPITALIZA-

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TION PRODUCES THE CONCLUSION THAT THE REQUIRED SHARE CAPITAL ADDITION SHOULD BE THE EQUIVALENT OF DOLS 8.0 MILLION.

THIS IS THE FIGURE THAT THE FINANCIAL ANALYSIS STAFF THINKS IT COULD PRESENT TO THE EXIM BOARD FOR ITS FAVORABLE CONSIDERATION."

2. STANDARD EXIMBANK PROCEDURE REQUIRES BORROWER TO BE FINANCIALLY VIABLE AND HIGHLY UNLIKELY TO CALL ON THE GUARANTOR.

3. ON 11/22/74, MR. SULAIMAN OF MAS AGREED IN PRINCIPLE WITH EXIM STAFF PROPOSAL FOR ADDITIONAL CAPITAL.

4. RATIONALE FOR REQUIRING ADDITIONAL CAPITAL IS AS FOLLOWS:

A. MAS IS EMBARKING ON SUBSTANTIAL FLEET EXPANSION FINANCED PRIMARILY WITH DEBT THAT CAUSES THE POSITION OF TOTAL EQUITY TO DECLINE FROM 31 PERCENT OF TOTAL ASSETS AT 3/31/74 TO 22 PERCENT AT 3/31/78 AND UP TO 27 PERCENT AT 3/31/81.

B. PAID-IN-CAPITAL, A PORTION OF TOTAL EQUITY, AS A PERCENT OF TOTAL ASSESTS, DROPS FROM 24.5 AT 3/31/74 TO 6.4 AT 3/31/81. RETAINED EARNINGS ARE EXPECTED TO PROVIDE THE MAJOR PORTION OF MAS TOTAL EQUITY POSITION, WHICH MAY OR MAY NOT BE REALIZED. IN THE EVENT PROJECTED PROFIT LEVELS ARE NOT ACHIEVED, THERE WOULD BE LITTLE MARGIN OF SAFETY TO THE LENDERS.

C. MAS FORECASTS PAYMENTS TO G OF M IN DIVIDENDS ON SHARES OUTSTANDING AND IN TAXES ON UNDISTRIBUTED EARNINGS IN AMOUNT APPROXIMATING DOLS U.S. 33 MILLION BETWEEN 1975 AND 1981. THIS AMOUNT IS APPROXIMATELY EQUAL TO THE MAS EQUITY POSITION AT 3/31/74 AND IMPLIES A PAYOUT RETURN TO THE SHAREHOLDERS IN 7 YEARS, VERSUS A 10 YEAR REPAYMENT SCHEDULE FOR THE LENDERS.

D. THE ADDITIONAL DOLS U.S. 8.0 MILLION PAID-IN-CAPITAL BY 3/31/76 RESTORES THE EQUITY POSITION TO THE 31 PERCENT LEVEL MAINTAINED AT YEAR-END 1973 AND 1974 AND WOULD PROVIDE SUFFICIENT CASH FOR WORKING CAPITAL NEEDS.

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5. EXIM PROPOSES ALTERNATIVELY THAT IN LIEU OF ADDITIONAL PAID-IN-CAPITAL THE G OF M BE THE OBLIGOR FOR THE SUBJECT CREDIT.
KISSINGER

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Disposition Approved on Date:
Disposition Authority: shawdg
Disposition Case Number: n/a
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